

Bidding successful

David Parker gives some tips on how best to prepare your pitch when trying to buy a pharmacy...

Many first time buyers (and in the current climate, even some very experienced ones) struggle to decide what they should be offering in order to maximise their chances of being the preferred bidder, when a pharmacy comes up for sale. Some imagine the bidding process to be a tactical game of guile and cunning, where only a poker face, sharp wit and steely nerve will see you right (usually men).

As an agent that sells pharmacy businesses for a living you may expect me to tell you that all pharmacies sell for extraordinary sums, and that in order to be in with a shout, you should simply match those numbers and then add some.

To some extent this is true; the pharmacy sales market is still a seller's one, despite the impact of category M. The mismatch between the number of sellers and the number of buyers is such that a healthy degree of competition can be expected for most businesses brought to market.

Thus, putting aside what a business is 'worth' (more on the subject of value later), if you want to be the preferred bidder, you must accept that you are unlikely to achieve this whilst remaining

well within your financial comfort zone.

However, the successful sale of a pharmacy business is not just about whipping potential buyers into a bidding frenzy. The platform upon which a pharmacy can be transferred to best effect is one where information on the business is well presented, trustworthy and clearly allows potential bidders to evaluate the future returns they can hope for.

This clarity and transparency helps buyers, allowing them to limit risk and bid more aggressively, and as a consequence delivers maximum return for the seller.

My first recommendation therefore, is that any buyer should make sure they have requested, digested and evaluated all important financial and commercial information on a business before they even think about making an offer.

The simple lesson for any bidder from this story (see box) is to make sure that the offer is based on the best possible information, good and bad. If you are subsequently outbid then it means that either the competing bidder did not understand the full picture and has over-offered or that he or she is in a position to

generate better returns than you.

With regard to the former, there is nothing you can do. There will always be fools willing to pay more than a business is worth. The latter however requires further mention. There are circumstances in which some bidders will always be able to offer more than others because the business suits them better.

For example, with better buying power, economies of scale and cheaper borrowing costs, a large multiple should always be able to extract more profits from, and thus offer substantially more for, a large predictable prescription factory.

By way of example, I recount the story of a young acquisitions manager for a large multiple (who probably doesn't want a credit for this) that had valued and prepared an offer for a pharmacy business based on the understanding that it opened for some 59 hours per week.

When he presented his offer to the vendor, the latter expressed great dissatisfaction with the price being proposed. When the buyer explained that the value had been arrived at through detailed financial modelling (which it had) and that it had been impacted to a large degree by the lengthy opening hours, the vendor pointed out that this was a mistake and that the business only opened for 49 hours per week.

The technical valuation argument, so eloquently presented by the buyer, was immediately turned on its head in a classic example of negotiating jujitsu and the seller correctly suggested that his business was worth an additional £200k.

The red-faced bidder tried to fudge the issue and carpet-trade his way to an intermediate solution; a strategy which failed on two counts;

1. It destroyed all notions of trust and integrity between the parties, so even if the offer had been accepted, the transaction that ensued would have spluttered on, encumbered with nitpicking and rancour at every stage.
2. The buyer was offering in a market-place and the simple truth of the matter is that the business was indeed worth £200k more than he initially thought. Had he acknowledged his error and simply added £200k to the asking price, he would have been financially no worse of than he had initially supposed and he would have created a tremendous impression of integrity. Moreover, on the assumption that competing bidders had valued the business on correct data, the full uplift in value was the only option that would offer a realistic chance of success.



Remember: it's a market place not a poker game

ly for a pharmacy

Although many first time buyers naively aspire to this type of business it is a rare, and probably misguided, one that actually makes the winning bid. Conversely, a smaller business that has the opportunity / threat of substantial local competition, and which would thrive on personality and attention to service-detail, should be better managed and exploited by an enthusiastic owner manager.

Although these are perhaps caricatures, the message is simple; target businesses where your maximum bid is likely to be better than anyone else's.

Winning the bidding process is unfortunately only the first part of successfully acquiring a pharmacy. Once the bidding is done, you will be required to put your money where your mouth is.

Although, as a selling agent, you may naturally expect me to promote delirious bidding, this is only of value if an offer can be backed up with finance. Although the market demands that buyers bid at the top end of their comfort zone, it is in neither the buyers' nor the sellers' interests to push offers beyond this. An offer that cannot be converted to a transaction is of no use to anybody.

In order to arrive at an offer that is both competitive and deliverable a buyer needs to work backwards, starting with the potential of the business. Ideally he/she should create a detailed and sophisticated cash-flow projection, that allows the financial modelling of various commercial scenarios (his lender cer-



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tainly will).

The free (unspent) cash that falls out of these projections can be allocated to the repayment of debt required to cover any offer made. It is important that when arriving at an offer, the buyer has a full understanding of all of the capital funding requirements of the acquisition (goodwill, fixtures, fittings, stock, advance rent payments, ongoing working capital, capex requirements etc.).

Given that the cost of borrowing £1,000 over a repayment term of 10 years (assuming a market rate at the time of writing of 6.25 per cent) is £135 then the free cash-flows you have arrived at in your evaluation can easily be translated into maximum potential loan, that can theoretically be serviced (bear in mind most lenders will require a margin of clearance).

Add to this any equity you have available

to you and you are close to the maximum figure you can afford to offer.

As well as evaluating what you can offer, it is also worth, from a personal perspective, trying to evaluate the return you might achieve on your own equity. This analysis requires a little more crystal-ball gazing, and, although the past can in no way guarantee the future it does serve to illustrate potential returns.

Thus, although the short term returns may be poor, as the majority of your free cash goes to service debt, the longer term should hopefully prove much more interesting.

On the assumption that profits will grow in absolute terms and that interest rates remain steady, the free cash should ramp up quite nicely and of course after the 10 year repayment term, not only will the debt disappear, but you should also be the proud owner of a substantial and

perhaps much appreciated asset.

So returning to the subject matter at hand; 'bidding successfully for a pharmacy' the recommendation is simple: It is a market place not a poker game. To that end you should:

- 1) Present yourself seriously and credibly to sellers, agents and financiers
- 2) Demand and deliver good quality, transparent information
- 3) Be as scientific as possible about your valuation
- 4) Bid as far as your comfort zone will allow BUT
- 5) Do not bid beyond what you can finance or afford

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